SM&A
Form 10-K
March 14, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

Commission file number 0-23585

SM&A

(Exact name of registrant as specified in its charter)

California	**33-0080929**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4695 MacArthur Court, 8th Floor, Newport Beach, California 92660
(Address of principal executive offices) (Zip Code)

(949) 975-1550
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b of the Act). Yes þ No o

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was approximately $134,187,000 as of June 30, 2004.

Number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Common Stock, 20,247,593 shares outstanding at January 31, 2005

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s 2005 Proxy Statement are incorporated by reference into Part III of this Form 10-K.

FORM 10-K
For the Year Ended December 31, 2004

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CAUTIONARY STATEMENT RELATED TO FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K includes certain forward-looking statements as defined within Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, relating to revenue, revenue composition, earnings, projected plans, performance, contract procurement, demand trends, future expense levels, trends in average headcount and gross margins, and the level of expected capital expenditures. Such forward-looking statements are based on the beliefs of, estimates made by, and information currently available to SM&A management and are subject to certain risks, uncertainties and assumptions. Any statements contained herein (including without limitation statements to the effect that the Company or management estimates, expects, anticipates, plans, believes, projects, continues, may, will, could, or would or statements concerning opportunity or variations thereof or comparable terminology or the negative thereof) that are not statements of historical fact should be construed as forward-looking statements. The actual results of SM&A may vary materially from those expected or anticipated in these forward-looking statements. The realization of such forward-looking statements may be impacted by certain important unanticipated factors including those discussed in Additional Factors that may Affect Future Results under Item 1, and Management s Discussion and Analysis of Financial Condition and Results of Operations, at pages 16-20. Because of these and other factors that may effect SM&A s operating results, past performance should not be considered as an indicator of future performance, and investors should not use historical results to anticipate results or trends in future periods. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers should carefully review the risk factors described in this and other documents that SM&A files from time to time with the Securities and Exchange Commission (SEC), including subsequent Current Reports on Form 8-K, Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K.

HOW TO OBTAIN SM&A SEC FILINGS

All reports filed by SM&A with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials filed by the Company with the SEC at the SEC s public reference room located at 450 Fifth St., N.W., Washington, D.C. 20549. SM&A also provides copies of its Forms 8-K, 10-K, 10-Q, Proxy and Annual Report at no charge to investors upon request and makes electronic copies of its most recently filed reports available through its website at www.smawins.com as soon as reasonably practicable after filing such material with the SEC.

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ITEM 1 BUSINESS

As used in this report, SM&A, the Company , we, our and similar terms include SM&A and its subsidiaries, unle the context indicates otherwise.

Overview Development of Business

SM&A is the world s leading provider of competition management services, and a leading provider of high-value performance assurance services. Under these two service lines, our approximately 300 employees and consultants provide strategy, proposal management, program management, systems engineering, expert support, program planning, and other high-value technical support to major industrial customers in the defense, homeland security, aerospace, information technology, architect and engineering sectors.

We were founded in 1982. After sixteen years of consistent revenue and profit growth, we completed an initial public offering in January 1998 and embarked on an acquisition program to broaden our service and product offerings. Due to the underperformance of the acquired businesses during 2000 and 2001, we discontinued, liquidated or sold all of the acquired businesses and, in early 2002, retired our debt.

Business Strategy

We support our clients by providing a full array of high-value services that either add to our clients top line revenue through the more effective management of their proposals, and/or we improve their bottom line earnings by applying high value technical and management leadership to their awarded programs. While the Company operates in one business segment, our business strategy is to classify the services we offer under the following two categories:

> Competition Management: Represents consulting services which provide project leadership to help our clients strategically position themselves, identify business opportunities, and formulate and prepare competitive bids. We are the largest provider of competition management services in the world; and
>
> Performance Assurance: Represents consulting services that assist our clients in systems engineering and project integration tasks.

Competition Management

Competition Management. We provide competition management services through proprietary proposal management strategies and processes. In conjunction with these processes, we typically assume a leadership role and place dedicated teams at client facilities to manage all aspects of the competitive proposal development effort. Since 1982, we have managed more than 900 proposals worth more than $300 billion for our clients and have achieved an 85% win rate on awarded contracts. The combination of our high win rate and reputation has contributed to our dominant market share of competition management services outsourced by government contractors, while also leading to an increase in the amount of business from firms interested in winning commercial work. In 2004, we supported 98 proposals for our clients with an award value of more than $32 billion. The highest profile example in 2004 was our successful support of our client who was awarded a $10 billion contract from the U.S. Department of Homeland Security. The phases of our competition management include:

The Pursuit Phase. Our team assists the client in the creation of a winning strategy that leads to the selection of sub-contractors, an investment plan, a technical baseline, and a program implementation plan. We typically deliver this support in the form of a small, very high-value team.

The Proposal Phase. Our team manages a client team, typically 10 to 200 engineers, information technology specialists and managers, providing full time, hands-on execution of the process from strategy formulation, through all phases of proposal preparation and review, to post-submittal responses to the government s questions. The proposal process typically requires three to twelve months of intense activity at the client s site.

The Evaluation Phase. After the proposal is submitted, the proposal team s interaction with the U.S. Government is a critical part of our winning process. Because our clients typically reassign key personnel to other projects after proposal submittal, we have an opportunity to support our clients with a small core team to answer formal questions from the government and prepare the best and final offer. Another area of our action during the government s proposal evaluation period is working with the client s team in preparation for winning the award. Many proposals include a very aggressive start-up phase that requires the delivery of significant products within the first 30 to 60 days after the contract award. We provide management support, program planners and schedulers, systems engineers, and other specialists to assist the client s team to meet early post-award commitments. This support leads naturally into the provision of program support services.

Proposal Management Functions and Skills. We provide our clients with the full range of skills and functions they need to prepare winning proposals. As we have grown, we have provided a greater selection of services to our clients as they have concurrently grown more accustomed to outsourcing various proposal management functions.

The following provides some description of the types of services we deliver in support of competition management:

Win Strategist. Early in the competitive process, we help our clients position themselves to win. Win Strategists are typically senior SM&A associates with high-level executive backgrounds. Our account executives frequently participate in win strategy sessions for our clients.

Proposal Manager. The proposal manager is responsible for the timely execution of a client s proposal. He or she reports to an SM&A account executive. All SM&A and client personnel working on the proposal report to the SM&A proposal manager. SM&A proposal managers have strong technical and programmatic backgrounds and generally have had senior level responsibilities, such as vice presidents, general managers, program managers, or chief engineers before coming to work for us. SM&A only assigns individuals as proposal managers who have had significant prior experience with SM&A and our processes.

Executive Summary Author. When the proposal requires an executive summary, we often supply our clients with an author capable of fusing a wide array of topics into a compelling short story that explains why us? to the customer. These authors often have exceptional presentation expertise, and domain knowledge of the client s industry.

Technical Volume/Book Leader. The technical volume can be the most difficult part of a proposal because it forms the foundation of the client s offering, and usually involves the greatest number of client personnel. SM&A technical volume leaders have similar experience profiles to those of proposal managers.

Management Volume/Book Leader. Management volumes usually have fewer authors than technical volumes, but are of critical importance as they describe how the client will be organized to accomplish what has been proposed, who will actually lead the effort, and will determine the use of facilities, tools and processes, etc. As a result, SM&A management volume leaders may write more of this volume themselves. Management volume leaders are usually experienced industry senior managers.

Cost Volume/Book Leader. The cost volume leader often works with a large group of client accounting and cost estimating personnel. This task is challenging because the cost volume leader must understand both cost accounting and engineering principles.

Price-to-Win Support. This function often supports Win Strategy formulation as well as competitive pricing. Skills used include derivative pricing, parametric pricing, and competitive analysis.

Integrated Master Plan/Integrated Master Schedule Specialist. This specialist integrates the entire program: engineering, management, risk, schedule, and staffing. This skill is also in high demand in the program support services side of the business.

Orals Coach. If the proposal submittal has an oral presentation component, we will often support our client with intensive training and preparation. Orals coaches are highly experienced communications experts.

Production Leader. The production leader coordinates the physical creation of the proposal product, either in hard copy and/or in electronic format. The production leader is an experienced graphics artist with exceptional organizational and leadership skills.

Production Support. During times of intense proposal activity, clients are often understaffed in the area of graphics and word processing personnel. SM&A has a cadre of very experienced and high-quality production support personnel capable of working more quickly and to a higher level than can be obtained through temporary employment agencies or often the clients own staff.

Red Team Leader. Proposals will typically undergo one or more major reviews to ensure quality and consistency. Red Team leaders are senior level managers capable of organizing a very intense two- to three-day review process.

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Performance Assurance Services

Performance Assurance Services. Performance Assurance services provide our clients with experienced leaders and subject matter (domain) experts. We rapidly fill difficult-to-place positions, improving our client s program implementation by supporting their ability to stay on schedule and on budget. Since past performance (i.e., a company s contract performance) is a large part of the graded score in competitive federal procurements, our clients especially value our support in this area. Some notable examples of our program support services in 2004 are our ongoing assistance to The Boeing Company in support of its National Missile Defense Lead System Integrator responsibilities and Future Combat Systems program and our continued support to Lockheed Martin Corporation in service of its Joint Strike Fighter program. The types of services we provide include:

Program Management. Our cadre of experienced executives and program managers assist our clients in executing critical portions of their contract work. This assistance can take the form of interim management, an Integrated Product Team leader, or a sub-leader. In most cases, our leadership serves as a bridge until our client can find the appropriate person to lead the effort internally. In some cases, we are engaged as a subcontractor to provide management assistance for more extended periods of time.

Systems Engineering. Our systems engineering work in support of program execution assists our clients in defining the work that must be done to meet a given program s objectives. The first step formally defines the top-level program objectives including mission requirements, annual and total budget, and the schedule for each major program milestones and then communicates them to each engineering, information technology, and management department. The systems engineers perform trade studies and analyses to objectively evaluate the cost, schedule, risk and likely performance of alternative solutions. The systems engineers then manage the top-level program requirements database. As the program evolves through the design, development, test, and production phases, systems engineers constantly evaluate the work of the program s design and test groups to be certain that the top-level requirements are being met.

Program Integration. Concurrent with our delivery of systems engineering in support of program execution, we provide our program integration functions. We do this work to ensure that a given program has been meticulously planned and that the program team follows the plan. Our program integration effort is critical to the financial success of our client. The work has an initial phase in which the program to be accomplished is defined in detail. This includes the detailed description of all tasks to be completed by all of the participants over the life of the program, the scheduling of these tasks, the sizing of each task and the definition of the relationship among the tasks. This information is maintained by the program integration team in an electronic and, sometimes, web-enabled format easily accessible to the management team. After the definition work is completed, the program integration staff focuses on the execution of the program in which the status of each task is constantly evaluated and reported to management, including the government project office, the likely attainment of future milestones is predicted, and the program risks are constantly re-evaluated to allow proactive management decisions to mitigate risk.

Markets for Competition Management Services

We assist companies seeking to identify, win and implement new business. Since 1982, we have helped clients win contracts, a service that generated about 57% and 53% of our revenue in 2004 and 2003, respectively. Our major clients core businesses are in providing various defense and aerospace goods and services to the federal government and represent about 75% and 84% of our proposal management activity in 2004 and 2003, respectively. Our reputation in the market is based on our ability to help our clients win consistently. This reputation for winning provides us with an opportunity to provide new and existing clients with services beyond competition management.

We provide our clients with a full service strategic consulting and proposal management capability. The need for this specialized capability can be found wherever companies have a requirement to produce a competitive proposal in response to a request for proposal from a corporate, federal, state, local or international entity. We have also been marketing with increasing success to companies pursuing non-federal business. The largest single portion of our business is derived from supporting companies engaged in the pursuit of competitively awarded federal contracts, mainly from the Department of Defense (DoD).

Supporting Proposals in Response to Federal Procurements. We expect that the federal government will obligate approximately $160 billion in fiscal year 2005 to acquire goods and services from large prime contractors, of which approximately two-thirds to three-quarters will be obligated by the DoD. Federal spending of this nature is expected to remain level in 2005 and may continue at this rate for another two to three years due to resources constrained by the global war on terror, current operations in Iraq

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and Afghanistan, and current federal deficit pressures. A significant portion of these funds will be spent on information technology goods and services. Much of this procurement spending will be awarded competitively. Companies generally spend from one-half of one percent to three percent of the expected value of a contract to prepare their proposals. A company may therefore spend from $500,000 to $2 million to prepare a proposal for a program valued at $100 million. Federal law and policy encourages this spending and allows companies to seek reimbursement for about 50% of these expenses. Some portion of the money spent to bid on a program is often outsourced and it is this outsourcing for proposal services that represents the majority of our traditional source of revenue. Furthermore, the spending cited above is happening during a time of extreme demographic pressures in the defense and aerospace industry. The defense contractor workforce is retiring in record numbers up to 30% of defense industry knowledge workers are expected to retire between 2003 and 2007. To meet new demand and replace retiring workers, we believe the defense industry will have to hire about 255,000 knowledge workers between now and 2007. For this reason alone we can expect continued outsourcing demand from our clients. Finally, as part of our support to clients in leading the development of a competitive proposal, we often provide competitive strategy services and management consulting services.

Supporting Proposals in Response to State and Local Procurements. We expect that state and local governments will spend approximately $466 billion on goods and services in 2005, of which about $45 billion will be comprised of complex or large outsourcing contracts. State and local service-based projects are generally smaller and less complex than federal projects, thus making the potential market for our services smaller in the state and local market than in the federal market. As with non-DoD federal procurements, the larger and more complex state and local procurements often involve information technology and we have provided significant support to our clients in assisting the creation of their proposals for state and local government contracts.

Supporting Proposals in Response to International Government Procurements. Large international competitions, especially for defense goods among America s allies, are, in many ways, structured similarly to procurements managed by the DoD. We have enjoyed a significant degree of success and involvement with these overseas competitions over the years, especially with our established client base.

Supporting Proposals in Response to Corporate Procurements. We believe that large and technically complex corporate procurements have increasingly used a formal request for proposal rather than relationship selling to aid in determining the winning bidder. The processes and tools we developed for helping clients win government contracts are largely applicable in this market as well.

We project that the U.S. market for our proposal services exceeds $1 billion annually. This assessment is derived from our ongoing analysis of several recognized industry source documents and includes revenues we expect to be generated from DoD, civil, state and local government procurement awards for U.S. based large business concerns (excludes dollars set aside for small business firms).

Factors Driving Growth in Competition Management Services

We believe the growth of the market for outsourced proposal management is dependent on a number of factors, including but not limited to:

An Increase in the Defense Spending Budget. The defense budget is growing in some areas as the need for modernization of aging equipment becomes more pressing, and America s war on terrorism continues. The latter factor will drive defense spending for the foreseeable future. Furthermore, while defense spending appears likely to increase for the next few years, it is important to understand the distinction between spending on ongoing operations and spending on new systems and research and development the former type of spending is not as beneficial to us as it does not generally result in new competitive procurements.

An Increase in the Importance of Proposal Management Services. We believe that various factors in the aerospace and defense industries are contributing to an increased need to win projects. The ongoing consolidation activity in these industries has resulted in fewer, larger firms as well as an increased disparity between the resources of these larger firms and the remaining relatively smaller firms. The large consolidated firms are more motivated to win programs to support their operations and the smaller firms have an even greater need to access the resources necessary to compete with larger firms for programs. The U.S. Government has also conducted a number of winner-take-all competitions in which the government chose a single winner from two or more large aerospace suppliers that had historically supplied the products or services. The winners received multi-billion dollar contracts while the losers are either allocated a program subcontract or required to shut down their production facilities and re-assign or lay off several thousand workers. Consequently, proposal management services and a winning outcome have become increasingly crucial to all competitors.

A Decrease in Internal Competitive Proposal Capabilities of Client Community. We believe that the internal proposal capabilities of the clients that we have targeted for selling services to has decreased over the last several years due to fiscal pressures exerted on these companies. This trend is expected to accelerate as the pace of retirements within our client community peak in the next five years creating additional opportunities for proposal related services.

Markets for Performance Assurance Services

The access to key industry decision makers provided by the successful conclusion of a proposal often gives us the ability to provide performance assurance services to our clients. The early stages of a large or complex program are often the most critical. Our familiarity with the program, developed during the proposal phase, can compel our clients to hire us to ensure a rapid and successful program start. Services provided include systems engineering, program management, and project integration.

We offer program support services as a direct result of client requests to provide such services beginning in the mid-1990s. This service generated about 43% and 47% of our revenue in 2004 and 2003, respectively. The size of this market is in the billions of dollars annually, much of it in support of DoD prime contractors executing research, development, test and evaluation (RDT&E) contracts. According to DoD, in fiscal year 2002, the top 100 DoD contractors provided $107 billion of the $171 billion of goods and services contracted to business, of which about $21.1 billion was in support of RDT&E programs (see: www.defenselink.mil/pubs/almanac). Typically, prime contractors subcontract between 40-70% of the work share on such efforts. NASA, the Department of Energy and large federal and state information technology programs provided added value to this market numbering in the billions of dollars annually.

One prime entry point into these markets is through established clients with whom we have built a solid relationship based on winning important programs and trust. Several times a year we help our clients win new business. This often provides us with an opportunity to grow a successful business relationship from delivering proposal support services to delivering a wider range of services for our clients.

Factors Driving Growth in Performance Assurance Services

Strong client relations developed and maintained through program support, management consulting, and competitive strategy services also enhance our ability to provide proposal management services to our clients. We believe we can successfully compete in these markets by using our reputation for winning to access potential clients, and then provide those clients with a wide range of services based on our experienced workforce, disciplined processes, and understanding of complex systems.

As previously mentioned, our client base is under demographic pressures. Increased demand for goods and services for defense and homeland security purposes factored in with the accelerating pace of retirements in the industry indicates a shortfall of some 255,000 knowledge workers from 2003 through 2007. About half of this shortfall is due to retirements and half is due to increased demand. We primarily recruit new workers from the ranks of the best and brightest of the newly retired aerospace and information technology community. We believe the industry s experienced personnel challenge is our opportunity. Further analysis can be found in the November 2002 report of the Federal *Commission on the Future of the United States Aerospace Industry* (see: www.aerospacecommission.gov/AeroCommissionFinalReport.pdf) which says, in part, The industry is confronted with a graying workforce in science, engineering and manufacturing, with an estimated 26 percent available for retirement within the next five years. New entrants to the industry have dropped precipitously to historical lows as the number of layoffs in the industry mount. Compounding the workforce crisis is the failure of the U.S. K-12 education system to properly equip U.S. students with the math, science, and technological skills needed to advance the U.S. aerospace industry. This latter point is particularly important as foreign nationals have a difficult time obtaining the required security clearances to work in the defense and homeland security industries.

Sales and Marketing

Our account executives market our services directly to senior executives of major corporations, supported as necessary by our leadership and staff. Our account executives are experienced industry experts who have successfully managed proposal development efforts and/or have extensive sales experience in professional services. They spend the majority of their time on-site with our clients, working with them to capture and implement new business. Relationship selling based on this on-site presence along with our excellent reputation drives most of our revenue.

Specifically addressing our currently targeted client base, SM&A has developed a tracking process that now includes more than 130 major business units of our core defense as well as other associated firms. These firms represent where we derive our existing revenues as well as where we are targeting additional growth. Of these 130 plus major business units, we estimate that our services are only made available in 15 to 20 percent of the competitive bidding opportunities. Even at this service level, actual revenue as a percent of targeted revenue from these businesses has been increasing. Furthermore, as we continue to strategically manage the addition of experienced Account Executives and focus on specific targeted client business units, we expect increased opportunities for revenue generation at current clients will occur and development of new client revenue opportunities will develop.

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A significant portion of new business arises from prior client engagements. Clients frequently expand the scope of engagements during delivery to add complementary activities. Also, our on-site presence affords our team the opportunity to become aware of, and to help define, additional project opportunities as they are identified by the client. The strong client relationships arising out of many engagements facilitate our ability to market additional services to our clients in the future. In addition, our senior management team is actively involved in meeting with companies that have not yet engaged our services, and newly appointed senior managers in existing clients who might not be thoroughly knowledgeable of our previous assistance to them.

In addition to relationship selling, we employ a variety of business development and marketing techniques to communicate directly with current and prospective clients, including making on-site presentations, advertising in trade publications, attending industry seminars often featuring presentations by our personnel, attending trade shows and authoring articles and other publications about the industry and our methodologies, processes and technologies.

Major Clients

We provide our high-end systems engineering and integrated proposal management services to numerous Fortune 100 clients. Our largest clients by percent of revenue received for the year ended December 31, 2004 are:

The Boeing Company	30.1%
Lockheed Martin Corporation	22.7
Accenture LTD	15.7
	68.5%

This revenue is a result of various engagements by several business units of these companies. Although such business units are affiliated with the parent entities, our experience indicates that particular engagements are subject to the discretion of each individual business unit.

Pipeline and Backlog Process

Generally, our contracts are terminable by the client on short notice or without notice. Accordingly, we do not believe it is appropriate to characterize these contracts as backlog. Normally if a client terminates a project, the client remains obligated to pay for commitments we have made to third parties in connection with the project, services performed and reimbursable expenses incurred by us through the date of termination.

We estimate our future performance based on pipeline. Pipeline is defined as measuring specific opportunities in our marketplace and assigning an estimated percentage of obtaining the opportunities. These internal estimates, though useful for planning purposes, are subject to a number of risks and uncertainties, and our actual results may frequently be materially different from our pipeline estimates set from time to time.

Competition

We are a niche player providing high-value strategic services that, in most cases, would not be otherwise outsourced. As a result, we most frequently compete with our clients internal organizations. We believe our core clients continue to labor under demographic pressures and, as a result, their ability to internally staff their requirements for high-value resources will diminish. In addition to our clients internal capability, we have competitors in our markets for both competition management and performance assurance services. Competitors in the competition management services are made up of very small consultancies and individual consultants focusing primarily on proposal development. The largest of these is roughly one-fifth our size. We are able to offer greater depth of capability, a more diversified array of capabilities, and more efficient, better structured processes. We continue to focus on the strategic issues driving our clients ability to win and high quality execution of their proposals. Competitors for performance assurance services are by contrast generally very large companies, many have greater marketing, technical, and financial resources than ours. However, our goal is not to be the high volume provider of journeyman technical support, but rather to be the premium provider of high-value strategic support services. Our focus is on delivering very high quality, something that is very difficult for high volume providers to deliver.

Competition Management Services. Our biggest competitor in this market is our clients internal competition management capability. Many of our clients maintain internal business acquisition teams that are designed to handle the procurement of government contracts. The number of such in-house departments has been decreasing in recent years and, therefore, these clients have a limited ability to react to sudden increases in procurement activity or to must-win situations. If the client is open to outsourcing, then we are the largest provider of outsourced competition management services and principally compete with numerous smaller companies in this highly specialized industry. Shipley Associates is our largest competitor with 16% of our revenue in 2003, according to Dunn & Bradstreet.

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Performance Assurance Services. The program management, systems engineering and program integration markets are highly competitive and include a large number of highly capable firms in the United States with internal resources of the larger prime contractors being the primary competition. The market is also highly fragmented. We, however, have found increasing opportunities to work with clients who have previously retained us for proposal management services. In doing so, we seek to provide high-value strategic services as opposed to simply providing engineering job shop services as our competitors usually do. Some of our competitors include Booz Allen Hamilton and Volt Information Technology.

Principal Competitive Factors in Professional Services. We believe the principal competitive factors in the professional business services market includes, in priority order: industry and program knowledge, rapidly deployable skilled personnel, responsiveness, reputation, credibility, reliability, and price. Proposal management competitive factors are similar but in a different priority, they include: reputation, the level of experience and skill of staff professionals, credibility, reliability, industry expertise, quality of service, responsiveness, and procurement success rate. The need to provide efficient and cost-effective service is of even greater importance where the cost of proposal development is likely to be a larger percentage of the contract amount than with a large program.

Development of New Services or Techniques

In 2005, we plan to develope, sell and deliver new complementary service line extensions that will service our exisiting and new customers. We plan to rollout these service lines extensions throughout 2005 and we will continue to evaluate additional opportunties as they are identified.

To meet changing client needs and expectations, primarily the need to reduce unneeded bid and proposal costs caused by the co-location of proposal teams (including teammates), we began developing software tools to both automate our proposal development process and to allow for virtual team collection using the Internet. We developed a tool in-house in 2001 and have spent resources to upgrade and maintain this tool through 2004. This effort resulted in a proprietary product named SM&A® ToolKit. Toolkit improves the efficiency of our deployed proposal teams and increases our competitive position in a client base that is growing increasingly sensitive about the costs of co-locating large proposal teams from widely scattered locations.

In addition, we are investing in hiring personnel capable of rapidly setting up and working in collaborative computer networks   increasingly valuable skills needed to support our clients. Furthermore, as proposals have more commonly become electronic rather than paper, we have developed techniques to improve quality and the ease at which the proposal can be evaluated by the government.

Employees

As of December 31, 2004, we had approximately 300 employees and consultants. Approximately 80% of the employees are competition management and performance assurance consulting professionals, 6% are account executives and marketing professionals and the remaining 14% are involved in enterprise management which comprises finance, management information systems, human resources and other administrative functions. We believe that our success depends significantly upon attracting, retaining and motivating talented, innovative and experienced professionals. For this reason, our employees are comprised of experienced program managers, engineers and skilled technicians, tested in some of the largest and most complex military, commercial and government programs of the past 30 years. The typical employee has more than 20 years of applicable experience in industry, government and/or the military and a majority of our employees possess advanced degrees in science, engineering or information technology fields.

We have a recruitment and training program to help acquire and ensure retention of high quality personnel and to enable us to respond to expanding customer needs. The performance of each of our employees is continuously evaluated both by the team with whom the employee is working and by the client who has engaged us. Our executives are always on call to discuss any and all personnel issues. We have maintained the highest standards of performance to ensure client satisfaction. We also attract and motivate our professional and administrative staff by offering competitive packages of base salary and incentive compensation and benefits.

Our employees are not represented by any labor union and we have never experienced a work stoppage. We believe that our relations with our employees are good.

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ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

In addition to the other information in this Annual Report on Form 10-K, the following factors should be considered carefully in evaluating our business and prospects.

Our business depends substantially on the defense industry.

Our competition management and performance assurance services business depends substantially on U.S. Government expenditures for defense products. Any decline in the future defense, information technology or homeland security procurement expenditures could affect the opportunities available to our clients and, indirectly, our business. A number of factors could contribute to such a decline in opportunities, including:

Loss of political support for current or increased levels of spending;

Changes of presidential administration, particularly changes from one political party to another, that typically result in a mass reordering of priorities that reduce new proposal activity for up to a year;

Threat scenarios evolving away from global conflicts to regional conflicts;

Spending for ongoing operations, such as the war on terrorism, the occupation of Iraq, downward pressure on spending for procurement of new systems and research and development spending; and

Cancellation of programs or emphasis on government shifting programs.

In the event expenditures for products of the type manufactured by our clients are reduced and not offset by other new programs or products, there will be a reduction in the volume of contracts or subcontracts to be bid upon by our clients and, as a result, a reduction in the volume of proposals we manage. Unless offset, such reductions could materially and adversely affect our business, operating results and financial condition.

We rely on a relatively limited number of clients.

We derive a significant portion of revenue from continuing operations from a relatively limited number of clients. Our seven largest customers accounted for 83.5% and 91.8% of our revenue for 2004 and 2003, respectively. Clients typically retain our services as needed on an engagement basis rather than pursuant to long-term contracts, and a client can usually terminate the engagement at any time without a significant penalty. Moreover, there can be no assurance that existing clients will continue to engage us for additional assignments or do so at the same revenue levels. The loss of any significant client could materially and adversely affect our business, financial condition and results of operations. In addition, the level of services required by an individual client may diminish over the life of the relationship, and there can be no assurance we will be successful in establishing relationships with new clients as this occurs.

The markets in which we operate are highly competitive.

The market for competition management services in the procurement of government and commercial contracts for aerospace and defense work is a niche market with a number of competitors. We are the largest provider of such services and principally compete with the in-house capability of our clients. In addition, numerous smaller proposal management companies compete in this highly specialized industry. With sufficient resources in the form of money and excellent talent with current security clearances, our competitors could erode our current market share and such a reduction could materially and adversely affect our business, operating results and financial condition.

We rely heavily upon our key senior management personnel and our ability to recruit and maintain skilled professionals.

Our success is highly dependent upon the efforts, abilities, and business generation capabilities and project execution of our strategic account managers and account executives. In addition, Steven S. Myers, our Chief Executive Officer and Chairman of the Board, has a significant role in our success. The loss of the services of these individuals, for any reason, could materially and adversely affect our business, operating results and financial condition.

Our business involves the delivery of professional services and is highly labor-intensive. Our success depends largely on our general ability to attract, develop, motivate and retain highly skilled professionals. The loss of some or a significant number of our professionals or the inability to attract, hire, develop, train and retain additional skilled personnel could have a serious negative effect on us, including our ability to obtain and successfully complete important engagements and thus maintain or increase our revenue.

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Quarterly results may fluctuate.

We may experience fluctuations in future quarterly operating results due to a number of factors, including the size, timing and duration of client engagements.

Our stock price is subject to significant volatility.

Our common stock was first publicly traded on January 29, 1998 after our initial public offering at $12.00 per share. Between January 29, 1998 and December 31, 2004, the closing sale price has ranged from a high of $31.13 per share to a low of $0.75 per share. The market price of our common stock could continue to fluctuate substantially due to a variety of factors, including:

- Quarterly fluctuations in results of operations;
- Adverse circumstances affecting the introduction, or market acceptance of new services we offer;
- Announcements of new services by competitors;
- Announcements of poor operating results by us or our competitors;
- Loss of key employees;
- Changes in the regulatory environment or market conditions affecting the defense and aerospace industry;
- Changes in earnings estimates and ratings by analysts;
- Lack of market liquidity resulting from a relatively small amount of public stock float;
- Changes in generally accepted accounting principles;
- Sales of common stock by existing holders; and
- The announcement of proposed acquisitions and dispositions.

Principal shareholder has significant control.

At December 31, 2004, Steven S. Myers, Chief Executive Officer and Chairman of the Board, beneficially owned or controlled approximately 24.22% of our outstanding common stock and will have the ability to control or significantly influence the election of directors and the results of other matters submitted to a vote of shareholders. This concentration of ownership may have the effect of delaying or preventing a change in control and may adversely affect the ability of other holders of our common stock to pass shareholder resolutions and control our actions.

ITEM 2 PROPERTIES

We do not own any real estate. We lease our principal corporate offices adjacent to the John Wayne Airport in Newport Beach, California. We have approximately 31,000 square feet of office space in this location and the term of our lease expires in June 2012. Additionally, we have approximately 300 square feet of office space in Herndon, Virginia, which serves as our East Coast sales support office, the lease for which expires in April 2006. We believe our offices are adequate for our present and anticipated near-term need.

Included in discontinued operations are three properties totaling approximately 56,000 square feet. Of the 56,000 square feet, we have subleased 36,000 square feet under non-cancelable leases. For the remaining available 20,000 square feet, we continue to work with our brokers to find suitable tenants.

ITEM 3 LEGAL PROCEEDINGS

We are involved in routine litigation incidental to the conduct of our business. There are currently no material pending litigation proceedings to which we are a party or to which any of our property is subject.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5 MARKET FOR THE REGISTRANT S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Price Range Of Common Stock

On May 30, 2000 our Common stock began trading on the NASDAQ Small Cap Market under the symbol EITI following notification from NASDAQ that we did not comply with the requirements for continued listing on the NASDAQ National Market. In 2003, we were relisted to the NASDAQ National Market after we met the requirements for listing. On January 24, 2002, we changed our name to SM&A and our symbol to WINS .

The following table sets forth, for the quarters indicated, the high and low closing sale prices as reported on NASDAQ.

	2004		2003	
	High	Low	High	Low
First Quarter Ending March 31	$ 12.97	$ 10.00	$ 5.53	$ 3.50
Second Quarter Ending June 30	$ 11.14	$ 7.27	$ 11.20	$ 5.45
Third Quarter Ending September 30	$ 8.72	$ 6.59	$ 12.57	$ 8.72
Fourth Quarter Ending December 31	$ 8.94	$ 6.92	$ 14.07	$ 10.95

As of January 31, 2005, there were approximately 90 shareholders of record of our common stock. The closing sale price of our common stock on the NASDAQ National Market on January 31, 2005 was $8.54 per share.

Dividends

We have not declared or paid cash dividends to stockholders of our common stock. We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, capital requirements, and our general financial condition.

Recent Sales of Unregistered Securities

None.

Shares Reserved for Future Issuance

At December 31, 2004, we had reserved 625,063 shares for future issuance under our stock option plan and 140,941 shares under our employee stock purchase plan.

Issuer Purchases of Equity Securities

In May 2004, the Company s Board of Directors authorized a plan to repurchase up to $7.0 million of the Company s common stock. The Company intends to repurchase shares from time to time, at prevailing prices, in the open market. The timing and amount of the share repurchases will be at the discretion of management and will be based on such factors as the stock price, general economic and market conditions, and other factors. The share repurchase plan may be suspended or discontinued at any time. Shares repurchased under the plan will be restored to the status of authorized but unissued shares. As of December 31, 2004, we have repurchased 625,500 shares at a total cost of $4.6 million.

Included in the table below is a block transaction for 87,500 shares at a discounted cost of $595,000 in which we facilitated the exercising of stock options and the purchase of the related shares upon the retirement of our former member of the Board of Directors, Luther Nussbaum.

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ITEM 5 MARKET FOR THE REGISTRANT S COMMON STOCK AND RELATED STOCKHOLDER MATTERS (continued)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Approximate $ Value of Shares That May Yet Be Purchased Under the Plan
Beginning balance		$		$ 7,000,000
May 1, 2004 to May 31, 2004	17,500	8.02	17,500	6,859,615
June 1, 2004 to June 30, 2004	16,700	7.99	34,200	6,726,138
July 1, 2004 to July 31, 2004	19,400	8.05	53,600	6,570,000
August 1, 2004 to August 31, 2004	109,600	8.01	163,200	5,692,000
September 1, 2004 to September 30, 2004	168,800	6.97	332,000	4,515,000
October 1, 2004 to October 31, 2004	269,400	7.22	601,400	2,571,000
November 1, 2004 to November 30, 2004	23,400	8.05	624,800	2,383,000
December 1, 2004 to December 31, 2004	700	8.19	625,500	2,377,000
Total	625,500	$ 7.39	625,500	

Information about securities authorized for issuance under the Company s equity compensation plans is incorporated by reference to Note 8 to the Financial Statements.

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ITEM 6 SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and the information contained herein in Item 7 of Part II, Management s Discussion and Analysis of Financial Condition and Results of Operations. Historical results are not necessarily indicative of future results.

	Years Ended December 31, (in thousands, except per share data)				
	2004	2003	2002	2001	2000
Consolidated Statements of Operations Data *(1)* :					
Revenue	$ 68,954	$ 75,593	$ 55,057	$ 46,407	$ 37,506
Gross margin	31,193	34,060	22,998	19,360	16,815
Operating income	14,722	19,731	10,629	7,347	4,073
Interest (income) expense, net	(192)	(73)	865	1,909	328
Unrealized (gain) loss on interest rate swap			(6)	673	
Income from continuing operations	9,692	13,268	6,518	2,849	2,209
(Loss) from discontinued operations				(21,897)	(32,572)
Cumulative effect of adoption of FASB Statement No.133, net of tax				(668)	
Extraordinary loss from early extinguishment of debt, net of tax			(2,499)		
Net income (loss)	$ 9,692	$ 13,268	$ 4,019	$ (19,716)	$ (30,363)
Net income (loss) per share (2):					
Basic					
Continuing operations	$ 0.47	$ 0.66	$ 0.33	$ 0.15	$ 0.14
Discontinued operations	$	$	$	$ (1.15)	$ (1.99)
Extraordinary loss from early extinguishment of debt	$	$	$ (0.13)	$	$
Cumulative effect of adoption of FASB Statement. No. 133	$	$	$	$ (0.04)	$
Net income (loss)	$ 0.47	$ 0.66	$ 0.21	$ (1.04)	$ (1.86)
Diluted					
Continuing operations	$ 0.45	$ 0.62	$ 0.32	$ 0.15	$ 0.13
Discontinued operations	$	$	$	$ (1.14)	$ (1.96)
Extraordinary loss from early extinguishment of debt	$	$	$ (0.12)	$	$
Cumulative effect of adoption of FASB Statement No. 133	$	$	$	$ (0.03)	$
Net income (loss)	$ 0.45	$ 0.62	$ 0.20	$ (1.03)	$ (1.83)
Shares used to calculate net income (loss) per share:					
Basic	20,428	19,991	19,535	19,045	16,350
Diluted	21,521	21,428	20,452	19,219	16,579

Consolidated Balance Sheet Data:					
Cash	$ 22,148	$ 17,712	$ 5,956	$ 26,270	$ 1,548
Working capital	31,860	23,833	7,917	4,470	43,327
Total assets	37,383	31,803	18,404	44,691	67,224
Long-term debt, including current portion				22,085	21,766
Shareholders equity	32,691	24,433	8,388	3,685	22,910

Footnotes

(1) Loss from discontinued operations reflects the operations of Emergent-Central in 2000 and Emergent-East in 2001. See Note 6 to the Consolidated Financial Statements.

(2) Net income (loss) per share was computed as explained in Note 1 to the Consolidated Financial Statements.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SM&A is a consulting firm who is the world s leading provider of competition management services, and a leading provider of high-value performance assurance services. Under these two service lines, our approximately 300 employees and consultants provide strategy, proposal management, program management, systems engineering, expert support, program planning, and other high-value technical support to major industrial customers in the defense, homeland security, aerospace, information technology, architect and engineering sectors. Since 1982, we have managed more than 900 proposals worth more than $300 billion for our clients and have achieved an 85% win rate on awarded contracts.

RESULTS OF CONTINUING OPERATIONS

The following table sets forth certain historical operating results as a percentage of revenue:

	Years Ended December 31,		
	2004	**2003**	**2002**
Revenue	100.0%	100.0%	100.0%
Cost of revenue	54.8	54.9	58.2
Gross margin	45.2	45.1	41.8
Selling, general and administrative expenses	23.8	19.0	22.5
Operating income	21.4	26.1	19.3
Income from continuing operations	14.1%	17.6%	11.8%

The foregoing fiscal year comparison does not include the discontinued operations of Emergent Information Technologies-Central (Emergent-Central) and Emergent Information Technologies-East (Emergent-East). See Discontinued Operations.

Comparison of Fiscal Years Ended December 31, 2004, 2003 and 2002

Revenue. We derive our revenue from the various consulting services that we provide which are grouped under service lines entitled competition management and performance assurance. Revenue decreased $6.6 million, or 8.8% to $69.0 million for the year ended 2004, compared to $75.6 million for the same period of the prior year. The decrease was caused by some of our existing programs under our performance assurance services which reached a level of maturation in which our services are coming to a conclusion. In addition, the decrease was due to delays by the federal government to issue planned requests-for-proposals (RFP), which affected our competition management revenue, and delays in the start up of some awarded programs, which affected our performance assurance revenues. These delays were caused by the funding required to fight the war on terror in Iraq and Afghanistan, election year uncertainties, and NASA s reprioritization.

We have traditionally been heavily concentrated in the aerospace and defense sector which leaves us susceptible to market fluctuations caused by events such as the war on terrorism and election year uncertainties. In 2003 we initiated a strategic goal of diversifying ourselves outside of our traditional aerospace and defense concentration by offering our services to new customers in new verticals. Our efforts have produced strong results. We have added 28 and 15 new customers for the years ended December 31, 2004 and 2003, respectively. Of the 28 and 15 new customers, 46% and 47% are in verticals outside of our traditional aerospace and defense concentration and accounted for 8.9% and

3.2% of our total revenues in 2004 and 2003, respectively.

For the year ended 2003, revenue increased $20.5 million, or 37.3% to $75.6 million, compared to $55.1 million for the same period of the prior year. The increase in revenues from our top five customers grew 27.7% to $66.7 million compared to $48.2 million in the prior year. Our remaining customer base revenues increased 23.3% to $8.9 million compared to $6.9 million in the prior year. This increase in growth is directly related to our hiring of more account executives which enabled us to penetrate deeper into our existing customer base and focus on developing other vertical markets. We successfully continued to diversify our customer base by adding fifteen new customers in 2003 which reduced our overall percentage of customers in the aerospace and defense industry.

Gross Margin. Gross margin decreased $2.9 million, or 8.4% to $31.2 million for the year ended 2004 compared to $34.1 million for the same period of the prior year. The decrease in gross margin dollars was due to the decrease in revenue. As a percentage of revenue, gross margin of 45.2% was consistent with 45.1% for the same period of the prior year. We received approximately $1.8 million in win incentives in 2004 compared to approximately $500,000 in 2003. We offer some of our clients a win incentive discount which is defined as a discounted bill rate that we can recoup if our client wins their proposal or subsequently chooses not to bid after the proposal development process has begun. This increase in win incentives was offset by an increase in benefits and commission expenses.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

For the year ended 2003, gross margin increased $11.1 million, or 48.1%, to $34.1 million compared to $23.0 million for the same period of the prior year. The increase in gross margin dollars was directly related to the increase in our revenues. As a percentage of revenue, gross margin increased to 45.1% for the year ended 2003 compared to 41.8% for the same period of the prior year. The gross margin as a percentage of revenue increase was attributable to four factors. First, we saw an increase in revenues coming from competition management compared to performance assurance. Revenue coming from competition management was 53% of 2003 revenues as compared to 46% in 2002. Our competition management revenue carried a moderately higher gross margin during this period. Second, we moderately increased our billing rates in June 2003, which affected new contracts entered into after June 2003. Third, we reduced our travel expenses related to our service offerings; lastly, we received approximately $500,000 in win incentives in 2003 compared to approximately $100,000 in 2002.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist principally of salary and benefit costs for our executive, sales and administrative personnel, professional services and other general corporate activities. Selling, general and administrative expenses increased $2.1 million, or 14.9%, to $16.5 million for the year ended 2004, as compared to $14.3 million for the same period of the prior year. As a percentage of revenue, our selling, general and administrative expenses increased to 23.9% for the year ended 2004, compared to 19.0% for the same period of the prior year. The increase in expense was due to $2.7 million of expenses related to the continued increase in the hiring of our account executives, including their travel related expenses, related infrastructure support costs, and approximately $500,000 in expenses related to the implementation of Section 404 of the Sarbanes-Oxley Act. This increase of $3.2 million was offset by a $600,000 reduction in other professional fees, and $500,000 reduction in expenses relating to an employee all hands offsite event held in 2003, but not in 2004.

For the year ended December 31, 2003, our SG&A expense increased by $2.0 million, or 15.9%, to $14.3 million for the year ended December 31, 2003, as compared to $12.4 million for the year ended December 31, 2002. As a percentage of revenue, selling, general and administrative expenses decreased to 19.0% for year ended December 31, 2003, compared to 22.5% for the prior year period. The increase in expense was attributable to wages and infrastructure costs required to support the growth of our business.

Operating Income. Operating income decreased by $5.0 million, or 25.4%, to $14.7 million for the year ended 2004 compared to $19.7 million for the same period of the prior year. As a percentage of revenue, operating income decreased to 21.4% for 2004 compared to 26.1% for the same period of the prior year. The decrease in amount and as a percentage of revenue, compared to the same prior of the prior year, was due to the decrease in revenue and the increase in our selling, general and administrative expenses as described above.

For 2003, operating income increased by $9.1 million, or 85.6%, to $19.7 million, compared to $10.6 million for the same period of the prior year. As a percentage of revenue, operating income increased to 26.1% for 2003 as compared to 19.3% for the same period of the prior year. Operating income increased as a result of our revenue growth and improved gross margins, less the increase in selling, general and administrative expenses.

Interest (Income) Expense, net. Interest income net, increased by $119,000, or 163.0%, to $192,000 for 2004 compared to interest (income) net of $73,000 for the same period of the prior year. This increase is attributable to interest earned on our increased cash and cash equivalents balance for the year ended 2004 compared to the same period of the prior year.

For the year ended 2003, interest (income) net was $73,000 compared to interest expense net of $865,000 for the same period of the prior year. The fluctuation primarily resulted from the related levels of debt for the respective years, the amortization of debt discount, and interest expense on our interest rate swap.

Income Tax Expense. Our effective tax rate for 2004 was 35.0% compared to 33.0% and 33.3% for 2003 and 2002, respectively. In the fourth quarter of 2004, the Company received a federal income tax refund related to the 1998 audit of one of our discontinued operations, which was higher than accrued for, which resulted in a benefit in the current year. The refund added approximately $0.02 per diluted share in 2004.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

In March 2003, the Internal Revenue Service completed their examination for the calendar years 1998 through 2001. Based on the conclusion of the examination, we recorded a decrease in our tax contingency reserve leading to a reduction of income tax expense of $0.05 per diluted share in the first quarter of 2003. The improvement in our tax rate in 2002 was related to the Job Creation and Workers Assistance Act of 2002 , (the Act) which was enacted in February 2002. The Act allowed us to benefit from certain net operating losses that we otherwise would not have been able to benefit. In this regard, in October 2002, we entered into negotiations to, among other things, amend selected sections of the Stock Purchase and Sale Agreement with L-3 Communications Corporation related to the disposition of Emergent East. The resulting amendment to that Agreement allowed us to realize an immediate additional net tax benefit under the Act of $627,000.

Discontinued Operations

Refer to note 6 of the attached consolidated financial statements.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

LIQUIDITY AND CAPITAL RESOURCES

The Company continued to generate cash flow from operating activities in 2004. Cash flow from operating activities was $8.3 million for 2004, compared to $11.2 million for 2003. The decrease for 2004 was primarily due to the decrease in sales and increase in selling, general and administrative expenses. Our day sales outstanding (DSO), which represents the average number of days to collect our invoices, was 67 days which is comparable to our four year average of 64 days.

In 2004 and 2003, we spent $718,000 and $548,000, respectively, to purchase fixed assets to support our existing infrastructure and fund future growth.

Cash receipts related to our employees participation in both our stock option and employee stock purchase plan was $2.1 and $2.2 million for the years ended 2004 and 2003, respectively. No dividends were paid in 2004.

In May 2004, the Company s Board of Directors authorized a plan to repurchase up to $7.0 million of the Company s common stock. The Company intends to repurchase shares from time to time, at prevailing prices, in the open market. The timing and amount of the share repurchases will be at the discretion of management and will be based on such factors as the stock price, general economic and market conditions, and other factors. The share repurchase plan may be suspended or discontinued at any time. Shares repurchased under the plan will be restored to the status of authorized but unissued shares. As of December 31, 2004, we have repurchased 625,500 shares at a total cost of $4.6 million.

In April 2004, the Company renewed its previous revolving credit agreement. The renewed agreement allows for borrowings up to $10.0 million at the prime rate minus one half of one percent (0.50%) per annum or LIBOR plus two and one quarter percent (2.25%) per annum. The new revolving credit agreement expires in April 2005. Borrowings under the revolving credit agreement are unsecured. The agreement requires the Company to comply with certain financial covenants pertaining to its tangible net worth, ratio of total liabilities to tangible net worth, and ratio of current assets to current liabilities (as defined in the agreement). The agreement also contains certain negative covenants which, among other things, restrict the Company s ability to incur additional indebtedness of more than $1.0 million in excess of the $10.0 million limit set forth in the credit agreement and make capital expenditures in excess of $2.0 million without the prior written approval of the lender. At December 31, 2004, we had no outstanding borrowings under the line of credit, the bank had issued a letter of credit for $64,000, which expires on October 1, 2005, and we had $9.9 million in availability.

Our contractual obligations are as follows at December 31, 2004:

Contractual Obligations Payments Due By Period (In thousands)	Total	1 Year or Less	1-3 Years	3-5 Years	After 5 Years
Operating leases	$ 7,464	$ 969	$ 1,967	$ 1,943	$ 2,585
Operating leases related to discontinued operations, net of subleases	817	369	448		
Total	$ 8,281	$ 1,338	$ 2,415	$ 1,943	$ 2,585

Operating leases related to discontinued operations represent office space previously occupied by the Emergent-East and Emergent-Central divisions. The amounts above represent the remaining lease commitments over the remaining terms of the leases. We have entered into subleases for two of our leased properties. These subleases cover a portion of our lease commitments for these properties, and we expect these subleases to continue in effect for the life of our lease obligations with respect to these properties. We are continuing the process of identifying sub-lessees for our remaining leased property or negotiating lease buy-outs with the lessors.

We believe working capital available under the line of credit that expires in April 2005, cash and cash equivalents on hand, and cash generated by continuing operations will be sufficient to fund operations for at least the next twelve months. We believe we will be able to extend or replace the line of credit when it expires.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Those estimates are based on our experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers, and information available from other outside sources, which are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements, and may potentially result in materially different results under different assumptions and conditions. We have identified the following as critical accounting policies to our company:

Revenue Recognition. We recognize revenue from services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collection is reasonably assured. The majority of our services are provided under time and expenses billing arrangements, and revenue is recognized on the basis of hours worked, plus other reimbursable contract costs incurred during the period. Revenue is directly related to the total number of hours billed to clients and the associated hourly billing rates. A limited amount of revenue is also derived from success fees, offered to clients as a pricing option, and recorded as revenue only upon attainment of the specified incentive criteria. Success fees are not billable and revenue is not recorded until the client wins a contract.

Allowance for Doubtful Accounts. We must make estimates of potential future uncollectible accounts receivable related to current period revenue. Management exercises its best business judgment and reasonable assumptions and estimates in establishing the allowance for doubtful accounts in any accounting period. Material differences may result in the amount and timing of our revenue for any period dependent upon the best business judgment and reasonable estimates invoked by management in calculating these rent estimates. We specifically analyze accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was $13.2 million, net of allowance for doubtful accounts of $200,000 as of December 31, 2004.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) Share Based Payment (SFAS 123R), which is a revision to SFAS 123 and supersedes APB 25 and SFAS 148. This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. SFAS 123R applies to all awards granted after the required effective date (the beginning of the first interim or annual reporting period that begins after June 15, 2005) and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair-value-based method for either recognition or disclosure under Statement 123 will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. As a result, beginning in the third quarter of 2005, the Company will adopt SFAS 123R and begin reflecting the stock option expense determined under fair value based methods in its statement of operations rather than as pro-forma disclosure in the notes to the financial statements. The Company has not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123 and it is evaluating the requirements under SFAS 123R. Such adoption may have a substantial impact on its consolidated statements of operations and earnings per share.

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ITEM 7a QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We currently have no instruments that are sensitive to market risk.

ITEM 8 CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Our Consolidated Financial Statements are annexed to this Report as pages F-3 through F-16. An index to such materials appears on page
F-1.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)), as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fourth quarter of our fiscal year ended December 31, 2004 that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

The management of SM&A (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a 15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2004, management assessed the effectiveness of the Company s internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management has determined that the Company s internal control over financial reporting was effective as of December 31, 2004.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2004. The report, which expresses unqualified opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting as of December 31, 2004, is included in this Item under the heading Attestation Report of Independent Registered Public Accounting Firm.

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Attestation Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

To the Board of Directors and Stockholders of SM&A

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that SM&A maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). SM&A s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that SM&A maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, SM&A maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2004 of SM&A and our report dated February 25, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Orange County, California
February 25, 2005

Item 9B Other Information

None.

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PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item is incorporated herein by reference to the registrant s Definitive Proxy Statement with respect to the 2005 Annual Meeting of Stockholders to be filed with the SEC in April 2005, pursuant to Regulation 14A.

Code of Business Conduct

The Company has adopted a Code of Business Conduct applicable to all employees. This Code is applicable to Senior Financial Executives including the principal executive officer, principal financial officer and principal accounting officer of the Company. SM&A s Code of Business Conduct is available on the Company s Web site at *www.smawins.com* under Investor Relations Corporate Governance. The Company intends to post on its web site any amendments to, or waivers from its Code of Business Conduct applicable to Senior Financial Executives. A free copy is available upon request.

ITEM 11 - EXECUTIVE COMPENSATION

Information required by this item is incorporated herein by reference to the registrant s Definitive Proxy Statement with respect to the 2005 Annual Meeting of Stockholders to be filed with the SEC in April 2005, pursuant to Regulation 14A.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Approximate $ Value of Shares That May Yet Be Purchased Under the Plan
Beginning balance		$		$ 7,000,000
May 1, 2004 to May 31, 2004	17,500	8.02	17,500	6,859,615
June 1, 2004 to June 30, 2004	16,700	7.99	34,200	6,726,138
July 1, 2004 to July 31, 2004	19,400	8.05	53,600	6,570,000
August 1, 2004 to August 31, 2004	109,600	8.01	163,200	5,692,000
September 1, 2004 to September 30, 2004	168,800	6.97	332,000	4,515,000
October 1, 2004 to October 31, 2004	269,400	7.22	601,400	2,571,000

November 1, 2004 to November 30, 2004	23,400	8.05	624,800	2,383,000
December 1, 2004 to December 31, 2004	700	8.19	625,500	2,377,000
Total	625,500	$ 7.39	625,500	

In May 2004, the Company s Board of Directors authorized a plan to repurchase up to $7.0 million of the Company s common stock. The Company intends to repurchase shares from time to time, at prevailing prices, in the open market. The timing and amount of the share repurchases will be at the discretion of management and will be based on such factors as the stock price, general economic and market conditions, and other factors. The share repurchase plan may be suspended or discontinued at any time. Shares repurchased under the plan will be restored to the status of authorized but unissued shares. As of December 31, 2004, we have repurchased 625,500 shares at a total cost of $4.6 million.

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ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT (continued)

Included in the table above is a block transaction for 87,500 shares at a cost of $595,000 in which we facilitated the exercising of stock options and the purchase of the related shares upon the retirement of our former Board of Director, Luther Nussbaum.

Additional information required by this item is incorporated herein by reference to the registrant s Definitive Proxy Statement with respect to the 2005 Annual Meeting of Stockholders to be filed with the SEC in April 2005, pursuant to Regulation 14A.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is incorporated herein by reference to the registrant s Definitive Proxy Statement with respect to the 2005 Annual Meeting of Stockholders to be filed with the SEC in April 2005, pursuant to Regulation 14A.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated herein by reference to the registrant s Definitive Proxy Statement with respect to the 2005 Annual Meeting of Stockholders to be filed with the SEC in April 2005, pursuant to Regulation 14A.

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PART IV

ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

(1) Index to Consolidated Financial Statements

Report of the Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at December 31, 2004 and 2003	F-3
Consolidated Statements of Income for the Years Ended December 31, 2004, 2003 and 2002	F-4
Consolidated Statements of Shareholders Equity for the Years Ended December 31, 2004, 2003 and 2002	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002	F-6
Notes to Consolidated Financial Statements	F-7

(2) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts for the Years Ended December 31, 2004, 2003 and 2002	F-17

All other financial statement schedules have been omitted because they are not applicable, not required, or the information is included in the Consolidated Financial Statements or notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
SM&A

We have audited the accompanying consolidated balance sheets of SM&A as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SM&A at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of SM&A s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2005 expressed an unqualified audit opinion thereon.

/s/ ERNST & YOUNG LLP

Orange County, California
February 25, 2005

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SM&A

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,148	$ 17,712
Accounts receivable, net of allowance of $200 and $387	13,198	12,178
Prepaid expenses and other current assets	252	310
Deferred income taxes	539	752
Total current assets	36,137	30,952
Fixed assets, net	1,037	723
Other assets	209	128
	$ 37,383	$ 31,803
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,192	$ 683
Accrued compensation and related benefits	1,793	3,637
Income taxes payable	565	1,440
Net liabilities of discontinued operations	727	1,359
Total current liabilities	4,277	7,119
Deferred income taxes	242	45
Other liabilities	173	206
Total liabilities	4,692	7,370
Commitments and contingencies		
Shareholders equity:		
Preferred stock: Authorized 10,000,000 shares. None issued and outstanding		
Common stock, no par value: Authorized 50,000,000 shares. Issued and outstanding 20,218,342 and 20,336,167, respectively	50,781	52,215
Accumulated deficit	(18,090)	(27,782)
Total shareholders equity	32,691	24,433
	$ 37,383	$ 31,803

See accompanying notes to consolidated financial statements.

SM&A

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Years Ended December 31,		
	2004	2003	2002
Revenue	$ 68,954	$ 75,593	$ 55,057
Cost of revenue	37,761	41,533	32,059
Gross margin	31,193	34,060	22,998
Selling, general and administrative expenses	16,471	14,329	12,369
Operating income	14,722	19,731	10,629
Interest income (expense)	192	73	(859)
Income from continuing operations before income taxes	14,914	19,804	9,770
Income tax expense	5,222	6,536	3,252
Income from operations	9,692	13,268	6,518
Extraordinary loss from early extinguishment of debt, net of income taxes			(2,499)
Net income	$ 9,692	$ 13,268	$ 4,019
Net income per share Basic			
Continuing operations	$ 0.47	$ 0.66	$ 0.33
Extraordinary loss from early extinguishment of debt	$	$	$ (0.13)
Net income	$ 0.47	$ 0.66	$ 0.21
Net income per share Diluted			
Continuing operations	$ 0.45	$ 0.62	$ 0.32
Extraordinary loss from early extinguishment of debt	$	$	$ (0.12)
Net income	$ 0.45	$ 0.62	$ 0.20
Shares used in calculating net income per share:			
Basic	20,428	19,991	19,535
Diluted	21,521	21,428	20,452

See accompanying notes to consolidated financial statements.

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SM&A

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(in thousands)

	Common Stock Shares Outstanding	Common Stock Amount	Retained Earnings (Accumulated Deficit)	Total Shareholders Equity
Balances at December 31, 2001	19,278	48,754	(45,069)	3,685
Net income and comprehensive income			4,019	4,019
Shares issued upon exercise of options	267	437		437
Income tax effect from exercise of stock options		19		19
Shares issued for employee stock purchase plan	156	228		228
Balances at December 31, 2002	19,701	$ 49,438	$ (41,050)	$ 8,388
Net income and comprehensive income			13,268	13,268
Shares issued upon exercise of options	535	1,696		1,696
Income tax effect from exercise of stock options		571		571
Shares issued for employee stock purchase plan	100	510		510
Balances at December 31, 2003	20,336	$ 52,215	$ (27,782)	$ 24,433
Net income and comprehensive income			9,692	9,692
Shares purchased under repurchase program	(626)	(4,623)		(4,623)
Shares issued upon exercise of options	419	1,355		1,355
Income tax effect from exercise of stock options		1,088		1,088
Shares issued for employee stock purchase plan	89	746		746
Balances at December 31, 2004	20,218	$ 50,781	$ (18,090)	$ 32,691

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2004	**2003**	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 9,692	$ 13,268	$ 4,019
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of interest rate swap			(6)
Depreciation and amortization	368	274	260
Loss (gain) on disposal of fixed assets	36	(35)	
Deferred income taxes	410	497	1,920
Amortization of debt issuance costs			4,165
Income tax effect from exercise of stock options	1,088	571	19
Changes in operating assets and liabilities:			
Accounts receivable	(1,020)	(2,217)	(846)
Prepaid income taxes			1,860
Prepaid expense and other current assets	(23)	98	57
Accounts payable	509	(486)	(994)
Accrued compensation and related benefits	(1,844)	805	(737)
Income taxes payable	(875)	(1,549)	(362)
Other liabilities	(33)	(34)	(69)
Net cash provided by operating activities	8,308	11,192	9,286
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of fixed assets	(718)	(548)	(470)
Decrease in restricted cash			3,265
Net cash (used in) provided by investing activities	(718)	(548)	2,795
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	2,101	2,206	665
Payment for repurchase of shares	(4,623)		
Repayment of subordinated notes			(25,000)
Payment of early payment penalty on subordinated notes			(1,250)
Payment on termination of interest rate swap agreement			(1,780)
Net cash (used in) provided by financing activities	(2,522)	2,206	(27,365)
Net increase (decrease) in cash from continued operations	5,068	12,850	(15,284)
Net cash used in discontinued operations	(632)	(1,094)	(5,030)

Net increase (decrease) in cash	4,436	11,756	(20,314)
Cash at beginning of year	17,712	5,956	26,270
Cash at end of year	$ 22,148	$ 17,712	$ 5,956
SUPPLEMENTAL INFORMATION-CASH PAID FOR:			
Interest	$	$ 21	$ 1,560
Income taxes	$ 5,222	$ 7,770	$ 135

See accompanying notes to consolidated financial statements.

SM&A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2004, 2003, and 2002

As used herein, SM&A, Company, its, and similar terms include SM&A and subsidiaries, unless the context indicates otherwise.

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business. SM&A is a consulting firm who is a provider of competition management and high-value performance assurance services. Under these two service lines, our approximately 300 employees and consultants provide strategy, proposal management, program management, systems engineering, expert support, program planning, and other high-value technical support to major industrial customers in the defense, homeland security, aerospace, information technology, architect and engineering sectors. The Company operates in one business segment and conducts substantially all of its business in the United States.

Principles of Consolidation. The consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates made in preparing the financial statements include the allowance for doubtful accounts, reserves for discontinued operations, and income tax valuation allowances.

Cash and Cash Equivalents. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revenue Recognition. The Company recognizes revenue from services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectibility is reasonably assured. The majority of the Company s services are provided under time and expenses billing arrangements and revenue is recognized on the basis of hours utilized, and other reimbursable contract costs incurred during the period. Revenue is directly related to the total number of hours billed to clients and the associated hourly billing rates. A limited amount of revenue is also derived from success fees offered to clients as a pricing option, and recorded as revenue only upon the attainment of the specified incentive criteria. Success fees are not billable and revenue is not recorded until the client wins a contract.

Concentrations of Credit Risk and Major Customers. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company s accounts receivable are derived from revenue earned from customers primarily in the United States. The majority of the Company s receivables are from large companies in the aerospace and defense industries. The Company controls credit risk through credit approvals and monitoring procedures and, generally, does not require collateral or other security to support financial instruments subject to credit risk. Management must make estimates regarding the collection of its accounts receivable. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends, and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. The Company s accounts receivable balance was $13.2 million and $12.2 million, net of allowance for doubtful accounts of $200,000 and $387,000 at December 31, 2004 and 2003, respectively. Credit losses have historically been within management s expectations.

Customers accounting for more than 10% of the Company s revenue and accounts receivable are as follows:

	Revenue			
	Year Ended December 31,			**Accounts Receivable at**
	2004	**2003**	**2002**	**December 31, 2004**
The Boeing Company	30.1%	26.1%	22.5%	30.8%
Lockheed Martin Corporation	22.7	36.0	31.9	22.7
Accenture LTD.	15.7	15.0	11.7	18.2
The Raytheon Company	*	*	12.3	*
Total	68.5	77.1	78.4	71.7

* Less than 10%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments. The carrying value of cash and cash equivalents, accounts receivable, payables, and accrued liabilities are measured at cost and approximate their respective fair values because of the short maturities of these instruments.

Long-Lived Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company measures fair value based on quoted market prices or based on discounted estimates of future cash flows. Long-lived assets to be disposed of are carried at fair value less costs of sale.

Fixed Assets. Fixed assets are stated at cost less accumulated depreciation, and are depreciated on a straight-line basis over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are being amortized over the shorter of the useful life or lease term.

Marketing and Advertising Expense. Marketing expenses consist of advertising, promotional and public relations expenditures. The Company expenses general media advertising costs as incurred. Advertising expense and other promotional costs are $406,000, $337,000 and $376,000 in 2004, 2003, and 2002, respectively. There are no prepaid advertising costs included in prepaid expenses and other current assets at December 31, 2004 and 2003.

Stock-Based Compensation. The Company has elected to follow APB Opinion 25, Accounting for Stock Issued to Employees, to account for its stock options under which no compensation cost is recognized because the option exercise price is equal to at least the market price of the underlying stock on the date of grant. Had compensation costs for these plans been determined at the grant dates for awards under the alternative accounting method provided for in the SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an Amendment for FASB Statement No. 123, net income and earnings per share, on a pro forma basis, would have been:

	Years Ended December 31,		
	2004	**2003**	**2002**
Net income as reported	$ 9,692	$ 13,268	$ 4,019
Proforma compensation expense, net of taxes	(928)	(383)	(619)
Net income SFAS No. 123 pro forma	$ 8,764	$ 12,885	$ 3,400
Basic income per share as reported	$ 0.47	$ 0.66	$ 0.21
Proforma compensation expense, net of taxes	(0.04)	(0.01)	(0.04)
Basic income per share SFAS No. 123 pro forma	$ 0.43	$ 0.65	$ 0.17

Diluted income per share as reported	$ 0.45	$ 0.62	$ 0.20
Proforma compensation expense, net of taxes	(0.04)	(0.02)	(0.03)
Diluted income per share SFAS No. 123 pro forma	$ 0.41	$ 0.60	$ 0.17

The fair value for each option granted was estimated at the date of grant using a Black-Scholes option-pricing model, assuming no expected dividends and the following weighted average assumptions:

	2004	**2003**	**2002**
Stock volatility	91.14%	99.41%	102.78%
Risk-free interest rate	3.28%	2.99%	2.99%
Option term in years	3.19	3.35	2.47
Stock dividend yield	N/A	N/A	N/A

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Summary of Significant Accounting Policies-(continued)

Income Taxes. The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates. The Company provides a valuation allowance when it is more likely than not that some of the deferred tax assets will not be realized.

Discontinued Operations. On November 19, 2001, the Company entered into an agreement to sell the stock of Emergent-East, a formerly reported business segment, to an unrelated third party. In addition, on August 2, 2000, the Company discontinued the operations of Emergent-Central, a formerly reported business segment. Accordingly, these segments are presented as discontinued operations for all periods presented in the accompanying consolidated financial statements (see Note 6). The Company s continuing operations consist of a single business segment which assists clients with the procurement of government and commercial contracts and provides ongoing program support services after such contracts are awarded.

Net Income Per Share. Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the periods presented. Diluted net income per share is computed by dividing net income available to common shareholders by the weighted average number of common and common equivalent shares outstanding during the periods presented, assuming the exercise of all in-the-money stock options. Common stock equivalent shares have not been included where inclusion would be anti-dilutive.

The following table illustrates the number of shares used in the computation of basic and diluted net income per share (in thousands):

	2004	2003	2002
Denominator for basic income per Common share-weighted average shares	20,428	19,991	19,535
Incremental common shares attributable to dilutive outstanding stock options	1,093	1,437	917
Denominator for diluted income per common share	21,521	21,428	20,452

Anti-dilutive shares excluded from the foregoing reconciliation are 525,660 and 39,862 and 918,680 for 2004, 2003, and 2002, respectively.

Comprehensive Income. Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS 130), establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. In addition to net income, comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Items of comprehensive income include foreign currency exchanges and unrealized gains and losses on investments classified as available for sale. For the years ended December 31, 2004, 2003 and 2002, comprehensive income equaled net income.

Recent Accounting Pronouncements. In December 2004, the FASB issued SFAS No. 123 (Revised 2004) Share Based Payment (SFAS 123R), which is a revision to SFAS 123 and supersedes APB 25 and SFAS 148. This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. SFAS 123R applies to all awards granted after the required effective date (the beginning of the first interim or annual reporting period that begins after June 15, 2005) and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair-value-based method for either recognition or disclosure under Statement 123 will apply this Statement using a modified version of prospective

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Summary of Significant Accounting Policies-(continued)

application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. As a result, beginning in the third quarter of 2005, the Company will adopt SFAS 123R and begin reflecting the stock option expense determined under fair value based methods in its statement of operations rather than as pro-forma disclosure in the notes to the financial statements. The Company has not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123 and it is evaluating the requirements under SFAS 123R. Such adoption may have a substantial impact on its consolidated statements of operations and earnings per share.

Note 2. Fixed Assets

A summary of fixed assets follows at December 31 (in thousands):

	2004	2003
Computer equipment	$ 1,514	$ 899
Furniture and equipment	156	119
Leasehold improvements	222	204
	1,892	1,222
Less accumulated depreciation and amortization	(855)	(499)
	$ 1,037	$ 723

Depreciation expense was $368,000 and $274,000 and $260,000 in 2004, 2003 and 2002, respectively, of which $43,000 and $19,000 and $0 are included in cost of sales, and $325,000 and $255,000 and $260,000 are included in selling, general and administrative expenses for the years ended December 31, 2004, 2003, and 2002, respectively.

Note 3. Related Party Transactions

The Company is party to a contract with the Precept Group (Precept). One of the former members of the Company s Board of Directors serves as the President and CEO of Precept. During 2003, Precept was engaged to advise the Company on the development of a competency based human resource evaluation system. The contract value was determined through a review of prevailing market rates for such services. The Company paid the total contract value of $54,000 during the year ended December 31, 2003. During 2002, The Precept Group was engaged to advise the Company on its executive compensation and to perform a human resources assessment. The Company paid a total contract value of $22,000 during the year ended December 31, 2002.

The Company entered into a contract in April 2002 with ProView, a subsidiary of the Precept Group. The Company has agreed to outsource its employee benefits administration to ProView. The contract value was determined through a review of prevailing market rates for such services. Under this contract, the Company paid $34,000, $25,000 and $12,000 during the years ended December 31, 2004, 2003, and 2002, respectively.

The Company entered into an agreement with SummitJets, an aircraft leasing company owned by our Chairman and Chief Executive Officer. Under this agreement, the Company incurred expenses of $139,000 and $49,000 and $48,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Of the $139,000 expensed in 2004, $15,000 was unpaid and included in accounts payable as of December 31, 2004.

One of the members of the Company s Board of Directors assisted in brokering the Company s excess real estate related to the sale of its discontinued operations. The Company paid the board member $44,300 during the year ended December 31, 2002 for these services.

Two officers of the Company serve on the Board of Directors of two not-for-profit agencies. The Company has provided charitable donations to these two not-for-profit agencies in the amount of $28,000 in 2004.

SM&A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Related Party Transactions (continued)

In October 2004, the Company facilitated the exercising of stock options upon the retirement of our former member of the Board of Directors, Luther Nussbaum. Upon the exercising of the options, the Company repurchased 87,500 shares for a total discounted cost of $595,000. We purchased the shares at a 3.6% discount.

Note 4. Revolving Line of Credit and Interest Rate Swap

In April 2004, the Company renewed its previous revolving credit agreement. The renewed agreement allows for borrowings up to $10.0 million at the prime rate minus one half of one percent (0.50%) per annum or LIBOR plus two and one quarter percent (2.25%) per annum. The new revolving credit agreement expires in April 2005. Borrowings under the revolving credit agreement are unsecured. The agreement requires the Company to comply with certain financial covenants pertaining to its tangible net worth, ratio of total liabilities to tangible net worth, and ratio of current assets to current liabilities (as defined in the agreement). The agreement also contains certain negative covenant which, among other things, restricts the Company s ability to incur additional indebtedness of more than $1.0 million in excess of the $10.0 million limit set forth in the credit agreement and make capital expenditures in excess of $2.0 million without the prior written approval of the lender. At December 31, 2004, we had no outstanding borrowings under the line of credit, the bank had issued a letter of credit for $64,000, which expires on October 1, 2005 and we had $9.9 million in availability.

Note 5. Long-Term Debt

The Company had no long-term debt outstanding at December 31, 2004 and 2003.

The Company entered into a Note and Stock Purchase Agreement (the Subordinated Debt Agreement) dated December 29, 2000 with various investors (the Purchasers). In consideration of a $25.0 million investment, the Company issued to the Purchasers (i) 13% unsecured, Senior Subordinated Notes due in 2005 in the aggregate principal amount of $25.0 million (the Notes), and (ii) 2,250,000 shares of our common stock with a fair value of $1,968,750.

The value of the common stock issued and related financing costs of $3.5 million were reflected as a discount on the Notes and amortized over the term of the Notes. In January 2002, the Subordinated Debt Agreement was paid in full from the proceeds of the sale of Emergent-East. In connection with the repayment, the Company incurred a prepayment penalty of $1.25 million, and wrote-off the remaining original issue discount and debt issuance costs. This retirement of the Senior Subordinated Notes resulted in a loss of $2.5 million, net of tax, which is reflected as an extraordinary item in the accompanying Statement of Income for the year ended December 31, 2002.

Note 6. Discontinued Operations

On November 30, 2001, the Company completed the sale of its interest in the common stock of Emergent-East (also known as the Government Services Group or GSG), a provider of system engineering, scientific research, program management, and technical support services to an independent third party for $39.8 million in cash. Accordingly, the operating results of Emergent-East, including provisions for losses during the period from October 1, 2001 through the closing date, facility lease costs, and other costs incurred in connection with the sale, have been accrued.

On August 2, 2000, the Company s Board of Directors adopted a plan to discontinue the operations of Emergent-Central, a business segment formed in 1999. Accordingly, the operating results of Emergent Central, including provisions for estimated losses during the phase-out period, facility lease costs, and other shut down expenses incurred in connection with the disposal are accrued.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Discontinued Operations (continued)

Liabilities of the discontinued businesses at December 31, 2004, as displayed in the table below, consisted of reserves for lease termination costs.

	Beginning Balance	Amounts Added	Amounts Paid	Ending Balance
2004				
Discontinued Operations	$ 1,359	$	$ (632)	$ 727
2003				
Discontinued Operations	$ 2,453	$	$ (1,094)	$ 1,359
2002				
Discontinued Operations	$ 7,483	$	$ (5,030)	$ 2,453

Note 7. Income Taxes

Significant components of income tax expense attributable to income from continuing operations before discontinued operations and extraordinary item consists of (in thousands):

	Current	Deferred	Total
Year ended December 31, 2004:			
Federal	$ 4,324	337	4,661
State	488	73	561
	$ 4,812	410	5,222
Year ended December 31, 2003:			
Federal	$ 4,379	$ 381	$ 4,760
State	1,661	115	1,776
	$ 6,040	$ 496	$ 6,536
Year ended December 31, 2002:			
Federal	$ 1,047	$ 1,639	$ 2,686
State	285	281	566
	$ 1,332	$ 1,920	$ 3,252

The following is a reconciliation of the statutory federal income tax rate to the Company s effective tax rate before discontinued operations and extraordinary item:

	2004	2003	2002
Income taxes at statutory federal rates	35.0%	35.0%	35.0%
State taxes, net of federal income tax benefit	2.4	5.8	5.8
Reduction in liability related to a tax examination	(3.6)	(7.8)	
Utilization of net operating losses			(6.6)
Other	1.2		(0.9)
	35.0%	33.0%	33.3%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Income Taxes (continued)

Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	2004	2003
Deferred tax assets:		
Accrued expenses	$ 140	$ 134
Allowance for doubtful accounts	91	170
Capital loss carryover	1,537	1,543
Discontinued operations accrual	328	596
Total deferred tax assets before valuation allowance	2,096	2,443
Valuation allowance	(1,537)	(1,543)
Total deferred tax assets	559	900
Deferred tax liabilities:		
Prepaid expenses	(99)	(94)
Depreciation	(126)	(45)
Other	(37)	(54)
Total deferred tax liabilities	(262)	(193)
Net deferred tax assets	$ 297	$ 707

In assessing the viability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the Company will realize the benefits of these deductible differences. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

During 2004, the Company received a federal income tax refund related to the 1998 IRS audit of one of its discontinued operations, which was higher than previously accrued for. During 2003, the Internal Revenue Service completed their examination related to the years 1998 through 2001. Based on the favorable conclusion of their examination, the Company recorded a reduction in its tax contingency of $1.5 million.

During 2002, the Job Creation and Worker Assistance Act of 2002, enacted in February 2002, allowed the Company to benefit from net operating losses previously unavailable. In October 2002, the Company entered negotiations to, among other things, amend selected sections of the Stock Purchase and Sale Agreement with L-3 Communications Corporation. The amendment allowed the Company to realize an immediate additional net tax benefit of $627,000.

At December 31, 2004, the Company had a capital loss carryover of approximately $3.5 million that expires in 2006. The Company has recorded a full valuation allowance against this deferred tax asset since the Company does not anticipate that it will have sufficient capital gains to utilize the carryover before it expires.

SM&A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Stock-Based Compensation and Employee Benefit Plans

Stock Option Plan. In 1997, the Company adopted the 1997 Stock Option Plan, later amended and restated (the Option Plan), under which incentive and non-statutory stock options to acquire shares of our common stock may be granted to officers, employees, and consultants. The Option Plan is administered by the Board of Directors and permits the issuance of up to 4,000,000 shares of the Company s common stock. Incentive stock options must be issued at an exercise price not less than the fair market value of the underlying shares on the date of grant. Options granted under the Option Plan vest over various terms up to ten years and are exercisable over a period of time, not to exceed ten years, and are subject to other terms and conditions specified in each individual employee option agreement. A summary of employee stock options is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Fair Value of Options Granted	Options Exercisable
Outstanding as of December 31, 2001	3,088,229	$ 4.40		1,278,537
Granted	583,000	3.06	$ 1.83	
Exercised	(316,425)	1.39		
Canceled	(595,584)	5.57		
Outstanding as of December 31, 2002	2,759,220	$ 4.20		1,328,552
Granted	277,250	7.09	$ 4.64	
Exercised	(534,814)	3.17		
Canceled	(610,514)	9.84		
Outstanding as of December 31, 2003	1,891,142	$ 3.10		847,628
Granted	753,500	9.71	$ 5.88	
Exercised	(424,652)	3.21		
Canceled	(172,569)	4.07		
Outstanding as of December 31, 2004	2,047,421	$ 5.43		887,438

The following table summarizes information concerning stock options outstanding at December 31, 2004:

Range of	Number of Options	Weighted Average Remaining Contractual	Weighted Average Exercise	Number of Options	Weighted Average Exercise

Exercise Prices	Outstanding	Life	Price	Exercisable	Price
$0.0000 - 2.8625	755,896	5.6	1.49	611,376	1.50
$2.8626 - 5.7250	422,025	7.5	3.44	200,512	3.42
$5.7251 - 8.5875	281,900	9.6	7.80	525	6.19
$8.5876 - 11.4500	294,600	9.1	9.78	18,650	9.43
$11.4501 - 14.3125	293,000	9.0	11.78	56,375	11.76
	2,047,421	7.5	5.43	887,438	2.75

Employee Stock Purchase Plan. In 1999, the Company adopted an Employee Stock Purchase Plan, later amended and restated (the ESPP). Under the ESPP, shares of the Company s common stock may be purchased at three-month intervals at 95% of the lower of the fair market value on the first or the last day of each three-month period. Employees may elect to have a maximum of 15% of their gross bi-weekly compensation withheld during any offering period. The total authorized shares currently allocated to the ESPP reserve are 1,300,000 and as of December 31, 2004, 1,159,059 shares have been distributed to participants.

SM&A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Stock-Based Compensation and Employee Benefit Plans (continued)

Defined Contribution Plans. The SM&A 401(k) Plan and Trust (the Plan) is a defined contribution plan. The Plan includes a tax-deferred 401(k) provision and applies to all employees. Contributions are made to the Plan by employees and the Company. The Plan permits employee contributions up to 20% of eligible compensation with Company matching, supplemental contributions for certain classes of employees based on performance criteria, and profit sharing under certain conditions. The Company s matching contribution was $360,000, $121,000 and $35,000 for the years ended December 31, 2004, 2003, and 2002.

Shares Reserved for Future Issuance. At December 31, 2004, the Company had reserved 625,063 shares for future issuance under the stock option plan and 140,941 shares under the employee stock purchase plan.

Note 9. Commitments and Contingencies

Leases. The Company currently leases office facilities and property and equipment under non-cancelable operating leases. Rental expense under operating lease agreements relating to our continuing operations for 2004, 2003, and 2002 was $725,000, $685,000, and $487,000, respectively. The aggregate future minimum rental to be received under our noncancelable subleases relating to our discontinued operations as of December 31, 2004 was $1.4 million. Future minimum lease payments are as follows for the years ending December 31 (in thousands):

	Continuing Operations	Discontinued Operations, net of subleases
2005	$ 969,000	$ 369,000
2006	985,000	338,000
2007	982,000	110,000
2008	972,000	
2009	971,000	
Thereafter	2,585,000	
Total	$ 7,464,000	$ 817,000

Contingencies. From time to time, the Company may be involved in legal proceedings and claims that arise in the ordinary course of business. The Company is currently unaware of any legal proceedings or claims against it that management believes will have, individually or in the aggregate, a materially adverse effect on its business, financial condition, or operating results.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Quarterly Financial Data (Unaudited)

The following summarized unaudited quarterly financial data has been prepared using the Company s consolidated financial statements (in thousands, except per share data):

2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$ 18,487	$ 16,159	$ 16,078	$ 18,230	$ 68,954
Gross margin	$ 8,343	$ 7,489	$ 7,075	$ 8,286	$ 31,193
Net income	$ 2,940	$ 2,283	$ 1,667	$ 2,802	$ 9,692
Net income per share Basic	$ 0.14	$ 0.11	$ 0.08	$ 0.14	$ 0.47
Net income per share Diluted	$ 0.14	$ 0.11	$ 0.08	$ 0.13	$ 0.45
Shares used in calculating net income per share					
Basic	20,409	20,541	20,512	20,259	20,428
Diluted	21,740	21,661	21,492	21,146	21,521

2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$ 18,745	$ 18,782	$ 18,704	$ 19,362	$ 75,593
Gross margin	$ 8,033	$ 8,313	$ 8,569	$ 9,145	$ 34,060
Net income	$ 3,778	$ 2,890	$ 2,872	$ 3,728	$ 13,268
Net income per share Basic	$ 0.19	$ 0.15	$ 0.14	$ 0.18	$ 0.66
Net income per share Diluted	$ 0.19	$ 0.14	$ 0.13	$ 0.17	$ 0.62
Shares used in calculating net income per share					
Basic	19,728	19,876	20,113	20,241	19,991
Diluted	20,153	21,360	21,610	21,729	21,428

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at the Beginning of the Period	Additions: Charge to Bad Debts Expense	Additions: Recoveries and Other	Deductions/ Write-Offs	Balance at the End of the Period
2004					
Allowance for Doubtful Accounts	$ 387	$ (140)	$	$ (47)	$ 200
2003					
Allowance for Doubtful Accounts	$ 439	$ (27)	$	$ (25)	$ 387
2002					
Allowance for Doubtful Accounts	$ 535	$ 51	$	$ (147)	$ 439

The Company specifically analyzes accounts receivable, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends, and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Based on this analysis, the Company reduced the allowance for doubtful accounts by $140,000 and $27,000 in 2004 and 2003, respectively.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SM&A

By: /s/ Steven S. Myers

Steven S. Myers
Chairman and Chief Executive Officer
Dated: March 9, 2005

POWER OF ATTORNEY

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steven S. Myers and Cathy L. Wood his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with Exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Steven S. Myers Steven S. Myers	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 9, 2005
/s/ Cathy L. Wood Cathy L. Wood	Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer)	March 9, 2005
/s/ William C. Bowes William C. Bowes	Director	March 9, 2005
/s/ J. Christopher Lewis J. Christopher Lewis	Director	March 9, 2005
/s/ Albert S. Nagy Albert S. Nagy	Director	March 9, 2005

/s/ Joseph B. Reagan	Director	March 9, 2005
Joseph B. Reagan		
/s/ Robert Rodin	Director	March 9, 2005
Robert Rodin		
/s/ John P. Stenbit	Director	March 9, 2005
John P. Stenbit		
/s/ Robert J. Untracht	Director	March 9, 2005
Robert J. Untracht		

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INDEX TO EXHIBITS

Exhibits (numbered in accordance with item 601 of Regulation S-K).

2.1	Stock Purchase and Sale Agreement, by and among the Registrant, Steven Myers Holding Inc. and L-3 Communications Corporation. (1)
2.2	Amendment No.1 to Stock Purchase and Sale Agreement, by and among the Registrant, Steven Myers Holding Inc. and L-3 Communications Corporation. (2)
3.1	Amended and Restated Articles of Incorporation. (3)
3.2	Amended and Restated Bylaws of the Registrant. (4)
10.1	Amended and Restated 1997 Stock Option Plan and related form of Stock Option Agreement. (5)
10.2	Amended and Restated Employee Stock Purchase Plan. (6)
10.3	Office Facility Lease. (7)
10.4	Amendment No. 1 to Office Facility Lease. (8)
10.5	Employment Agreement of Steven S. Myers. (9)
10.6	Amendment No. 1 to Employment Agreement of Steven S. Myers. (10)
10.7	Amendment No. 2 to Employment Agreement of Steven S. Myers. (11)
10.8	Amendment No. 3 to Employment Agreement of Steven S. Myers. (12)
10.9	Amendment No. 4 to Employment Agreement of Steven S. Myers. (13)
10.10	Amendment No. 5 to Employment Agreement of Steven S. Myers. (14)
10.11	Employment Agreement of Cathy L. Wood. (15)
10.12	Amendment No. 1 to Employment Agreement of Cathy L. Wood.(16)
10.13	Amendment No. 2 to Employment Agreement of Cathy L. Wood. (17)
10.14	Amendment No. 3 to Employment Agreement of Cathy L. Wood. (18)
10.15	Amendment No. 4 to Employment Agreement of Cathy L. Wood. (19)
10.16	Employment Agreement of Bennett C. Beaudry. (20)
10.17	Amendment No. 1 to Employment Agreement of Bennett C. Beaudry. (21)

10.18 Amendment No. 2 to Employment Agreement of Bennett C. Beaudry. [22]

10.19 Amendment No. 3 to Employment Agreement of Bennett C. Beaudry. [23]

10.20 Accounts Receivable Loan Agreement dated January 10, 2002, by and between the Registrant and City National Bank, a national banking association. [24]

10.21 Commercial Guaranty dated January 10, 2002, executed by Steven Myers & Associates, Inc. in favor of City National Bank, a national banking association. [25]

Exhibits continued

10.22 Revolving Loan Agreement dated October 14, 2003, by and between the registrant and City National Bank, a national association. (26)

10.23 Revolving Note dated April 10, 2003, executed by SM&A, in favor of City National Bank. (27)

10.24 Renewal of Revolving Note dated April 27, 2004, executed by SM&A, in favor of City National Bank. (28)

10.25 Consultant Agreement of Bowes Enterprises. (29)

10.26 Consultant Agreement of Joseph B. Reagan. (30)

21.1 Subsidiaries of the Registrant. (31)

23.1 Consent of Independent Registered Public Accounting Firm. (32)

31.1 Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (33)

31.2 Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (34)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (35)

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (36)

Footnote #

(1) Filed on November 27, 2001as Exhibit 10.1 to the registrant s Current Report on Form 8-K and incorporated herein by reference.

(2) Filed on December 14, 2001 as Exhibit 10.1 to the registrant s Current Report on Form 8-K and incorporated herein by reference.

(3) Filed on March 15, 2002 as Exhibit 3.1 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(4) Filed on May 3, 2002 as Exhibit 3.2 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(5) Filed on April 17, 2001 as Exhibit 10.1 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(6) Filed on April 29, 2002 as Exhibit C to the registrant s Annual Proxy Statement on Form 14A and incorporated herein by reference.

(7)

Filed on November 21, 1997 as Exhibit 10.3 to the registrant s Registration Statement 333-4075 on Form S-1 (Registration No. 333-4075) and incorporated herein by reference.

(8) Filed on October 22, 2004 as Exhibit 10.25 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(9) Filed on April 17, 2001 as Exhibit 10.17 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(10) Filed on March 15, 2002 as Exhibit 10.7 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(11) Filed on May 3, 2002 as Exhibit 10.8 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(11) Filed on March 11, 2003 as Exhibit 10.7 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(13) Filed on February 6, 2004 as Exhibit 10.8 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(14) Filed on October 22, 2004 as Exhibit 10.21 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(15) Filed on March 15, 2002 as Exhibit 10.8 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(16) Filed on November 4, 2002 as Exhibit 10.10 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(17) Filed on March 11, 2003 as Exhibit 10.10 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(18) Filed on February 6, 2004 as Exhibit 10.12 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(19) Filed on October 22, 2004 as Exhibit 10.22 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(20) Filed on November 4, 2002 as Exhibit 10.11 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference

(21) Filed on March 11, 2003 as Exhibit 10.12 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(22) Filed on February 6, 2004 as Exhibit 10.15 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(23) Filed on October 8, 2004 as Exhibit 99.1 to the registrant s current report on 8-K and incorporated herein by reference.

(24) Filed on January 25, 2002 as Exhibit 99.2 to the registrant s Current Report on Form 8-K and incorporated herein by reference.

(25) Filed on January 25, 2002 as Exhibit 99.3 to the registrant s Current Report on Form 8-K and incorporated herein by reference.

(26) Filed on February 6, 2004 as Exhibit 10.18 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(27) Filed on July 31, 2003 as Exhibit 10.16 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(28) Filed on July 21, 2004 as Exhibit 10.20 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(29) Filed on October 22, 2004 as Exhibit 10.23 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(30) Filed on October 22, 2004 as Exhibit 10.24 to the registrant s Quarterly Report on Form 10-Q and incorporated herein by reference.

(31) Filed on March 11, 2003 as Exhibit 21.1 to the registrant s Annual Report on Form 10-K and incorporated herein by reference.

(32) Filed herewith.

(33) Filed herewith.

(34) Filed herewith.

(35) Filed herewith.

(36) Filed herewith.

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(b) Reports on Form 8-K:

Form 8-K dated and filed on October 8, 2004, to report Amendment No. 3 to the Employment Agreement with Bennett C. Beaudry, President and COO of the Company.

Form 8-K dated and filed on October 18, 2004, to report the issuance of a press release announcing financial results for the fiscal quarter ended September 30, 2004.

Form 8-K dated and filed on October 28, 2004, to report the issuance of a press release announcing a five-year contract with PricewaterhouseCoopers Washington Federal Practice (PwC WFB).

Form 8-K dated and filed on December 20, 2004, to report the issuance of a press release updating guidance for the full year 2004 and providing guidance for the year 2005.